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TAGS: [ETRD](#) [MZ](#) [AGOA](#)

SUBJECT: MOZAMBIQUE: INPUT FOR PRESIDENT'S REPORT ON AGOA

REF: A. STATE 023970

[1](#)B. MAPUTO 01697

[1](#)C. MAPUTO 01452

[1](#)D. MAPUTO 01406

[1](#)1. AGOA Trade and Investment: Mozambique has had limited success in expanding trade and investment under AGOA, though there remains strong potential to increase exports in several key sectors. Two apparel companies, Mauritian-owned BELITA and Pakistani-owned OMAR, exported apparel products to the United States under AGOA during 2003, though OMAR recently closed its operations (ref B). Apparel exports consisted principally of knitted t-shirts under the FUBU and Cherokee (Target) labels. Despite the closure of OMAR, which resulted in the loss of over 350 jobs, apparel exports and jobs are likely to increase significantly in the next few years due to a recent investment by the Aga Kahn Foundation. This investment includes the rehabilitation of a 12,000 square meter factory located outside of the capital city of Maputo, and is expected to result in the creation of 2,000 jobs. The Foundation is the process of sourcing equipment for the plant. Several of Mozambique's six textile mills could potentially be revitalized. As none of the mills is currently operating at any significant level of operation, all textiles for use in apparel assembly factories are currently imported. A key concern for existing and potential investors in the apparel sector is the scheduled expiration of the third country textile provisions in September 2004. Post has been working closely with several fish processing facilities to promote the export of non-industrially caught prawns to the United States. The first shipment of prawns was exported to the United States in June and increased exports are expected.

[1](#)2. Market-Based Economy/Reduction of Trade Barriers: Mozambique continues to be one of the most dynamic and fastest-growing economies in sub-Saharan Africa, albeit from a low base. The Government of Mozambique (GRM) has encouraged foreign direct investment (FDI). Mozambique has privatized over 1200 mostly smaller companies and 37 large enterprises since the privatization program began 10 years ago. Foreign investors have participated in Mozambique's privatization program without impediment. Only 11 large state-owned or operated companies remain, including the national airline, telephone, electricity, insurance, oil and gas exploration, port and rail, airports, water supply, and fuel distribution companies. In July, Mozambique was assigned an international credit rating of B/B by Fitch Ratings, reflecting Mozambique's positive track record on economic reforms, political stability, strong economic growth, openness to FDI, and expanding exports. There were no claims of expropriation by U.S. firms in 2003. Mozambique remains cooperative on intellectual property rights protection. Mozambique is a signatory to the Southern African Development Community (SADC) Trade Protocol, which calls for the elimination of tariff and non-tariff barriers between the signatory states over a 12-year period. Launched in September 2000, tariff reductions began in July 2001.

[1](#)3. Poverty Reduction: Mozambique faces enormous development challenges. The country also lacks infrastructure, power, and clean water for most of its citizens. The Government has placed its Plan for the Reduction of Absolute Poverty (PARPA) at the head of its policy agenda. PARPA emphasizes six areas as the key reducers of absolute poverty: education; health; basic infrastructure; agriculture and rural development; good governance; and macroeconomic and financial management. Indicative of the huge challenges Mozambique will face for decades to come is the modest PARPA goal to reduce from 70 percent to 50 percent the level of absolute poverty by 2010. The donor community, led by the US, funds approximately 60 percent of the national budget, though the HIPC and Enhanced HIPC (Heavily Indebted Poor Countries) debt relief programs have permitted increased budgetary support to alleviate poverty.

[1](#)4. Democratic Consolidation/Rule of Law/Anti-Corruption: Mozambique has made significant progress in the consolidation of democracy since the signing of the 1992 Peace Accords that ended sixteen years of civil war. In late 2004, Mozambique will hold its third multi-party presidential elections since independence in 1975. The current constitutionally-elected president, Joaquim Chissano, will step down after having served two terms. Chissano and the leadership of FRELIMO dominate policy-making and implementation. On November 19, 2003, Mozambique held municipal elections which were

considered generally free and fair. However, many institutions, such as the judiciary and the police, remain weak. Corruption remains a problem in both the public and private sectors. In recognition of this, the GRM's Attorney General established an Anti-Corruption Unit, which has received funding from USAID and the Department. In addition, in October, the National Assembly passed the Anti-Corruption Law, which aims to curb corruption in government offices, the police force, hospitals and the schools. The Department has also funded Mozambique's Police Sciences Academy in an effort to improve the performance and professionalism of the police force. Mozambique is an increasingly important partner on regional security issues and in the war against terrorism and organized crime.

15. Human Rights/Workers Rights/Labor: Mozambique does not engage in gross violations of internationally recognized human rights, though there remains room for improvement and abuses do exist. The Constitution provides that all workers are free to join or refrain from joining a trade union, and workers enjoy these rights in practice. Labor unions, created during the socialist years, remain weak and lack resources. Total membership among Mozambique's thirteen unions is less than 200,000, concentrated in Maputo and a few other urban areas, and much of the labor force is engaged in small-scale agriculture. There were a number of work actions in 2003. Child labor remains a problem. One positive development during 2003 was the GRM's ratification of ILO Convention 182 on the Worst Forms of Child Labor.

16. Trade Capacity-Building Efforts/AGOA Outreach: USAID is currently implementing a variety of trade capacity-building efforts in Mozambique under its Strategic Objective of Enabling Environment for Growth. These initiatives focus on overcoming constraints to investment and trade through technical assistance and institutional support. In 2003, the Embassy began a series of digital video conferences (DVC) on expanding exports under AGOA in key sectors. The first DVC focused on the apparel/textile industry and included the participation of Mozambican government officials and apparel sector representatives and US business associations. A second DVC is planned for April on the handicrafts sector. The Embassy also continues to engage Ministry of Industry and Trade Officials on addressing constraints to trade and investment in key sectors.

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